

Message Text

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20

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AID-20 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-20

STR-08 CEA-02 L-03 H-03 DODE-00 PA-04 USIA-15 PRS-01

PM-07 SAJ-01 DRC-01 IO-14 NEA-10 /212 W

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R 140735Z JAN 74

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 2338

INFO AMEMBASSY LONDON

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

USMISSION OECD PARIS

UNCLAS CANBERRA 0248

EO 11652: N/A

TAGS: EFIN, AS

SUBJ: REVIVAL OF SPECULATION RE "FLOAT" OF
AUSTRALIAN DOLLAR

REF: A) CANBERRA 3578 B) CANBERRA 3596

1. SPATE OF COMMENTARY ON POSSIBILITY OF UNPEGGING
AUSTRALIAN FROM U.S. DOLLAR NOTED IN RECENT WEEKS.
ON NOVEMBER 30 ASSOCIATED CHAMBERS OF MANUFACTURES OF
AUSTRALIA (ACMA) RELEASED A STATEMENT ADVOCATING A
CONTROLLED "FLOAT" WITH 4.75 PERCENT BAND ON EITHER SIDE OF A
PAR VALUE. ACMA STATEMENT SUPPORTED BY SIMILAR CALL BY LEADER
OF COUNTRY PARTY AT ABOUT SAME TIME. ON DEC. 27 AUSTRALIAN FINANCIAL
REVIEW EDITORIAL ADVOCATED BREAK OF U.S.-AUSTRALIAN DOLLAR
"NEXUS". THE AUSTRALIAN OF JAN. 8 REPORTED ADVICE OF
LEADING MANAGEMENT CONSULTANT, W.D. SCOTT AND COMPANY,
TO CLIENTS THAT "SOME KIND OF FLOAT" LIKELY IN NEXT FEW
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MONTHS.

2. "DEVALUATION" BY JAPANESE, BIGGEST BUYERS OF AUSTRALIAN EXPORTS, ON JAN. 7 GAVE ADDITIONAL IMPETUS TO SPECULATION. ACMA RECOMMENDATION PROMPTLY REPEATED TO PRESS ON SAME DAY AS JAPANESE ACTION AND BOTH COUNTRY PARTY AND AUSTRALIA PARTY SPOKESMEN SHORTLY THEREAFTER MADE STRONG PITCH. FINALLY ON JAN. 10 LEADER OF COUNTRY PARTY ANTHONY AT PERTH BUSINESSMEN'S LUNCHEON AGAIN DEMANDED GOA ACTION.

3. MECHANICS OF "FLOAT" IN AUSTRALIAN CASE WHERE NO ORGANIZED FOREX MARKET EXISTS UNCLEAR. WOULD UNDOUBTEDLY BE COMPLETELY MANGED TO MAINTAIN DESIRED RESERVE POSITION ALONG SAME LINES, WE UNDERSTAND, AS NEW ZEALAND. UPSHOT OF PRESS COMMENTARY IN ANY EVENT IS THAT GOA FINANCIAL BUREAUCRACY IS ADVISING TREASURER CREAN TO MAINTAIN PRESENT TIE TO U.S. DOLLAR.

4. EMBASSY COMMENT: GOA'S MOST IMPORTANT ECONOMIC OBJECTIVE CONTINUES TO BE TO CONTAIN STRONG INFLATIONARY PRESSURE. THE GRADUAL APPRECIATION OF AUSTRALIAN DOLLAR WHICH HAS RESULTED FROM STRENGTHENING OF U.S. DOLLAR HAS CONTRIBUTED TO THIS OBJECTIVE BY RAISING PRICE OF BOOMING AUSTRALIAN EXPORTS AND IMPROVING COMPETITIVENESS OF IMPORTS TO THE EXTENT THE LATTER ARE AVAILABLE. IN GENERAL THIS IS THE OPPOSITE OF THE OBJECTIVE OF ACMA AND COUNTRY PARTY AND THEIR PROPOSAL PRESUMABLY VISUALIZES THAT "FLOAT" WOULD END APPRECIATION OR RESULT IN SOME AMOUNT OF DEPRECIATION VERSUS CURRENCIES OF AUSTRALIAN MAJOR TRADING PARTNERS. THE QUESTION OF WHETHER THIS WOULD IN FACT RESULT WOULD OF COURSE DEPEND ENTIRELY ON THE PRECISE MECHANISM AND POLICY FOR SETTING EXCHANGE RATES WHICH MIGHT BE ADOPTED IN THE EVENT OF A DECISION TO "FLOAT". ANY PREDICTION OF WHAT GOA WILL DO IN THIS AREA, WHICH IS FURTHER COMPLICATED BY UNCERTAINTIES OF ENERGY CRISIS, OBVIOUSLY MUST BE HIGHLY TENTATIVE. IN SHORT RUN HOWEVER IT SEEMS UNLIKELY GOA WILL TAKE STEPS WHICH WOULD RESULT IN EFFECTIVE DEVALUATION OF AUSTRALIAN DOLLAR. SUBJECT TO THIS IT IS PERHAPS MORE CONCEIVABLE THAT GOA MIGHT SERIOUSLY CONSIDER SEPARATING AUSTRALIAN DOLLAR FROM UNCLASSIFIED

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U.S. DOLLAR ON SOME BASIS WHICH AVOIDED INFLATIONARY IMPACT, THEREBY MOVING IN DIRECTION OF MORE FLEXIBLE CURRENCY POSTURE IN CURRENT INCERTAIN CONDITIONS, AND IN FORMAL SENSE ACCOMMODATING GROWING DOMESTIC PRESSURES FOR "FLOATING" AUSTRALIAN DOLLAR. THIS IS ALSO OF COURSE ANOTHER BASIC AREA IN WHICH TO EXPRESS NEW AUSTRALIAN INDEPENDENCE OF US. HARROP

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